SUBMISSION TO THE SELECT AND STANDING COMMITTEES ON FINANCE

IN RESPONSE TO THE CALL FOR SUBMISSIONS ON THE MEDIUM-TERM BUDGET POLICY STATEMENT 2024

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Executive Summary

The Budget Justice Coalition (BJC) has reviewed the Medium-Term Budget Policy Statement (MTBPS) 2024 and expresses grave concerns about its continued commitment to austerity, despite the pressing social and economic challenges facing South Africa. The proposed budget perpetuates fiscal constraints that deepen inequality, hinder essential public services, and overlook the needs of the most vulnerable. While the government promotes an agenda of inclusive growth, the budget's focus on achieving a primary surplus and reducing debt at the cost of social spending undermines these goals.

Key findings of the BJC's analysis include:

- Social Spending Cuts: Significant reductions in areas like education, social protection, and health threaten service delivery and deepen poverty. For instance, a projected R21 billion gap in social grant allocations signals that the Social Relief of Distress (SRD) grant may not be extended, risking a surge in hunger and deprivation.
- Underfunding Public Services: Efforts to contain the public sector wage bill through measures like incentivising early retirement are unlikely to address critical understaffing issues, particularly in education and healthcare, potentially pushing these systems toward collapse.
- Revenue Generation Shortfalls: The MTBPS lacks progressive revenue-raising measures, maintaining tax breaks for high-income earners and corporations while proposing only minimal funding for the South African Revenue Service (SARS), which is essential for tackling tax evasion and improving compliance.
- Missed Opportunities for Gender Equity: Despite prior commitments to Gender Responsive Budgeting (GRB), the MTBPS fails to account for the gendered impacts of austerity measures, particularly in sectors where women make up a significant portion of the workforce.

The BJC calls for a shift to a human rights-centred fiscal policy that prioritises investments in social infrastructure, wealth redistribution, and gender equity. Proposed alternatives include the implementation of wealth and financial transaction taxes, revisiting tax rebates for the wealthy, and utilising reserves like the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) to counterbalance social spending cuts.

The BJC urges Parliament to adopt a progressive, inclusive fiscal approach that honours South Africa's constitutional mandate to protect and uplift all citizens, fostering a fairer economy and a more equitable society.

Introduction

The Budget Justice Coalition (BJC) has conducted a thorough analysis of the Government of National Unity's (GNU) Medium Term Budget Policy Statement (MTBPS) and finds its commitment to austere budgeting deeply troubling. South Africa's income inequality - among the worst in the world - continues to worsen thirty years after apartheid. This follows a global trend where the rich get richer while the poor get poorer. While the new administration has made promises of change to this status quo, the

MTBPS tabled offers more of the same, providing no relief for the country's majority. Following years of sluggish economic growth and revenue shortfalls, along with campaign promises of public service reform, one might expect the new coalition government to leverage economic policy for meaningful change and job creation. Yet, the MTBPS reveals a continued commitment to the same fiscal austerity that has steadily undermined service delivery capacity nationwide.

As one of the first reflections of the GNU's commitments, the MTBPS should be assessed against its three stated priorities for the next five years: driving inclusive growth and job creation, reducing poverty and tackling the high cost of living, and building a capable, ethical, and developmental state. Yet, the MTBPS offers little indication of progress toward these goals. Instead, it starkly highlights the ongoing contradiction at the heart of government between fiscal policy and the realisation of rights.

The government's mini-budget is driven by a harmful focus on achieving a primary budget surplus and aggressive debt reduction. By using this "debt-stabilising" surplus as a fiscal anchor, it entrenches austerity for the decade ahead, making social infrastructure and public services even less accessible for most South Africans.

South Africa continues to face significant challenges in generating jobs, reducing poverty, and closing the gap of inequality—burdens that weigh heaviest on the country's most vulnerable populations. Although fiscal policy has the power to confront these pressing issues, the strict budget presented misses the mark in delivering the critical support that people urgently require.

It doesn't have to be this way. The BJC offers a range of recommendations aimed at reshaping fiscal policy to place human rights at the forefront and ease the struggles faced by the nation's most disadvantaged.

Summary of recommendations

1. Explore alternative ways to leverage the government's balance sheet, akin to the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), to prevent further cuts to social spending. For example, exploring other surpluses like government pensions and UIF.
2. Conduct Participatory Human Rights Impact Assessments on all budget decisions to help the State better understand and address any potential adverse impacts on constitutionally protected rights.

3. Recognise and address the gendered impacts of social spending cuts by implementing Gender Responsive Budgeting (GRB) with urgency.
4. Amend the Public Procurement Bill [B18B-2023] before the NCOP to include checks on Ministerial powers, transparency, and accountability mechanisms.
5. Reverse budget cuts to critical social sectors, including health infrastructure and public employment initiatives.
6. Ensure funding for basic education, healthcare, and social protection is adjusted to match CPI-inflation and growing demand.
7. Invest in capacity building and interventions to counter chronic underspending that obstructs human rights fulfilment.
8. Funds for public employment programmes must be ring-fenced in the medium to long term.

Analysis of revised fiscal framework

In our submission earlier this year, we condemned the commitment to fiscal consolidation without regard for the state's human rights obligations. Despite our objections, which highlight that this approach could hinder economic growth and limit revenue-generating capacity, the government persists in its commitment to it — even while promoting a narrative of inclusive growth as a priority. The MTBPS is characterised by downward revisions to growth and revenue forecasts. Debt servicing costs continue to sky-rocket. Beyond the critique that our fiscal policy falls short in its redistributive role, it is evident that a shift is needed toward fiscal frameworks that prioritise the realisation of human rights.

The 2024 Fiscal Framework envisages a continuation of austerity with plans to reduce main spending as a share of GDP from 28.4% to 27.6% over the medium term. While R20.1 billion is allocated as a real increase for non-interest spending over the next three years, this amount remains inadequate, with cuts persisting in crucial social areas. Significant real cuts are expected in education and social protection, including a R4.1 billion reduction in learning and culture funding between 2024/25 and 2025/26, especially affecting post-school education and training.

A stark difference of R21 billion appears between social grant allocations for 2024/25 and 2025/26, suggesting that the Social Relief of Distress (SRD) grant may not be extended or transitioned into a Basic Income Grant. This potential withdrawal of crucial income support risks deepening poverty, hunger, and starvation for millions. Moreover, the proposal to convert the SRD into a more restrictive jobseekers' grant overlooks the reality of limited job availability, and supply-side strategies alone are unlikely to resolve the severe unemployment crisis.

It is deeply concerning that the proposed cuts by the Minister come amid severe hunger and hardship, with 62.6% of South Africans living in poverty, 11.7 million unemployed, and 77% of active job seekers facing long-term unemployment—not to mention those who have stopped searching altogether. Recent studies show that job-seeking costs can reach up to R1,400 per month, with transport as the largest expense. Tragically, for the millions sidelined by our economy, this budget fails to create jobs, alleviate poverty and inequality, or tackle the climate crisis.

Containing the Public Sector Wage Bill

The South African public sector continues to be deeply understaffed, compromising the quality of public service provision across the country. Last year, Ritshidze reported that the leading major factor contributing to long waiting times was insufficient staffing; 75% of facility managers report staff shortages, with over 1,300 vacant positions across these 419 facilities. Additionally, inefficient filing systems add to the delays, with 40% of public healthcare users citing file retrieval as a significant cause of prolonged wait times. In education, despite overcrowding in underserved schools, provinces continue to not fill teacher posts owing to budget constraints. In spite of the urgent need to fill these posts as well as the persistent unemployment rate in this country, the National Treasury's remains committed to further reducing staff posts across the country.

The proposed R11-billion expenditure to encourage early retirement among public sector employees aims to reduce the wage bill and make room for younger talent. However, concerns linger that this move won't sufficiently address understaffing in education and healthcare. In fact, this proposal juxtaposes with provinces' efforts to redress staff shortages and backlogs caused by austerity budgeting. Just last month, Gauteng Health announced that it would rehire retired staff to address hospital backlogs. The MTBPS's approach to addressing the teacher shortage is deeply disappointing. Following February's announcement of cuts to the Funza Lushaka bursary scheme, fewer young teachers are being supported to join the profession. The Treasury's commitment to aggressively limit the public sector wage bill risks pushing the education system to the point of crisis. The early retirement proposal cuts off skills transfer in the public sector, leaving junior nurses and teachers to rely solely on textbook knowledge to meet citizens' needs.

The majority of public sector workers are teachers, healthcare professionals, and police officers. It is essential that they receive competitive pay to attract skilled and qualified professionals. There should be no trade-off between increasing salaries for most public service employees and maintaining or expanding public service staffing levels. What's needed is a greater investment in the public sector—both through better wages and by increasing the number of public sector workers.

Alternative to Austerity: Inclusive, Sustainable Growth

The use of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) demonstrates that alternatives to reducing the budget deficit without further public spending cuts are indeed feasible. Another viable option is for the Government Employees Pension Fund, with its annual surpluses of R50 billion, to purchase government bonds at concessional rates. Additionally, reducing or eliminating tax rebates for high-income earners should be considered as an alternative revenue stream to prioritise essential service delivery and support economic growth.

Ultimately though, the core issue with South Africa's fiscal policy is the lack of substantive, job-creating, and inequality-reducing growth within the South African economy. A robust public investment strategy is essential if alternative approaches are to effectively counter austerity pressures in the coming years. For meaningful and inclusive growth that can outpace rising debt interest costs over the long term, a progressive government must leverage these funding mechanisms and others to drive impactful development.

As stated in our submission in February 2024, South Africa continues to face severe fiscal constraints resulting from over a decade of economic stagnation, further strained by short-sighted fiscal policies. The current economic crisis is both long-standing and structural, prompting the question of how the fiscal framework can effectively respond. The BJC contends that a comprehensive approach to government taxation and spending is necessary to create a more inclusive view of debt that extends beyond the National Treasury's current focus on fiscal consolidation. Viable alternatives to the present fiscal framework, outlined below, highlight the need for South Africa to prioritise investment in human capital, physical infrastructure, and environmental sustainability. Fiscal policy can and should play a critical role in boosting demand and fostering sustainable growth.

The BJC advocates for a policy that centres on the priorities of people, the planet, and future generations. A national social dialogue led by the National Treasury's

Macroeconomic Review is essential to explore optimal strategies in macroeconomic and fiscal policy, addressing the urgent need for job creation and investment in both people and the planet.

Revenue performance and outlook

The MTBPS lacks progressive measures to raise revenue, simply noting that any increases might impact household income and savings. This viewpoint, however, ignores the significant disparities between households, as high-income earners, the wealthy, and corporations continue to benefit from tax breaks. These privileges should be eliminated, and new taxes on wealth and financial transactions implemented.

Concerns over the debt-to-GDP ratio are persistent, especially given that the tax-to-GDP ratio has remained capped below 25% throughout the post-Apartheid era. The government's unwillingness to raise overall tax levels has largely benefited the affluent, leaving the majority at a disadvantage. Ending tax breaks that favour high-income earners, the wealthy, and corporations would be a step towards reducing inequality. Additionally, implementing taxes on wealth and financial transactions could provide additional revenue and foster greater economic fairness. A more progressive tax system, taxing the wealthy at higher rates, would further advance this goal.

The MTBPS indicates a need for improved compliance; however, it only allocates an additional R2 billion to the South African Revenue Service (SARS) over three years. During a recent presentation to the parliamentary finance committee, SARS Commissioner Edward Kieswetter noted a "funding shortfall of R17 billion to R20 billion" over the three-year medium-term expenditure framework to meet SARS' baseline requirements. Kieswetter also highlighted that an additional R226 million in funding had generated R14.5 billion in revenue—a return on investment exceeding 600%. It is difficult to justify continued underfunding of SARS when increased resources could yield such substantial returns.

The Minister of Finance pointed to the G20 as an important opportunity for South Africa to build on Brazil's presidency and promote an Africa-centred agenda. For this to have real impact, however, it should align with the bold approach of the Africa Group, which has advocated for the United Nations Convention on International Tax and Cooperation (UNFCITC). Yet, National Treasury's stance—attempting to implement both the OECD's GloBe rules and participate fully in the UNFCITC—departs from the Africa Group's progressive vision. The democratic processes of the UN and the OECD's two-pillar framework are fundamentally misaligned. Moreover, the government's hesitance to tax the wealthy more heavily and its silence on Africa's debt crisis stand in stark contrast to the strong Global South leadership Brazil has displayed at the G20 this year.

Tax proposals

Raising the tax-to-GDP ratio is critical, as taxes are among the government's most effective tools for redistributing wealth. With public services nearing collapse, new revenue-generating options must be pursued over the medium term and beyond—most pressingly, a wealth tax on the ultra-rich. This measure is even more essential as revenue collections are expected to fall R17.7 billion short of 2024 budget predictions.

Recent cases, such as billionaire Christo Wiese's R3.7 billion tax dispute, show how the ultra-wealthy continue to evade billions in taxes. With the current fiscal outlook, issues like tax evasion, profit shifting, and illicit financial flows demand urgent attention.

The R17.7 billion shortfall in revenue collection further highlights the need for South Africa to adopt a bolder stance in the global tax reform dialogue. So far, South Africa has endorsed the OECD's Global Minimum Tax, projected to yield only R8 billion over three years—a figure that the University of Cape Town's Tax Research Unit argues is overly optimistic. With UN negotiations on a Framework Convention for International Tax Cooperation set to intensify, South Africa must go beyond aligning with the Africa Group and take a leadership role in challenging the OECD's dominance in setting global tax standards. This includes championing reforms that address profit shifting, such as taxing Transnational Corporations (TNCs) as unified entities to prevent revenue losses to multinationals.

Fiscal Anchors

The 2024 Budget Review outlines Treasury's plan to introduce a binding fiscal anchor aimed at ensuring debt sustainability over time. Although a primary surplus currently helps stabilise debt by limiting expenditure, the proposal would make this surplus legally binding through a fiscal rule. However, decisions on public spending are the remit of Parliament, which is accountable to the Constitution. Imposing a cap on spending from the National Treasury could undermine this democratic process. Furthermore, restricting expenditure risks escalating unemployment and inequality, hindering growth, and ultimately failing to reduce the debt-to-GDP ratio as intended.

Once again, the MTBPS put forth by the government and National Treasury prioritises the interests of the private sector and the wealthy over those of the broader population. This approach is likely to lead to increased unemployment, worsening hunger, and further economic stagnation. Austerity and privatisation are not the solutions needed.

Expenditure Trends

Education Spending

The government's commitment to education reforms is under scrutiny due to the minimal changes in the Basic Education budget. Despite the Western Cape's flood damage, the budget remains largely unchanged, resulting in a 0.4% cut, or R1.2-billion reduction, from R324.5 billion to R323.3 billion. This decrease will likely hinder provincial education departments' ability to provide essential resources like scholar transport, stationery, and learning materials.

Aside from small changes to address flood recovery in the Western Cape, the Basic Education budget has seen little adjustment, carrying forward nominal and real cuts introduced earlier in the year. The 0.4% decrease—equal to R1.2 billion, shifting from R324.5 billion to R323.3 billion—is expected to tighten provincial education budgets further, limiting resources for scholar transport, stationery, and learning materials.

Despite touting infrastructure as a priority, the 2024 MTBPS woefully neglects school infrastructure backlogs. The Accelerated School Infrastructure Delivery Initiative (ASIDI) aimed to build 30 new schools and 100 water facilities this year, but delivered only 1 school and none of the promised water facilities. Furthermore, the School Infrastructure Backlogs Grant (SIBG) cuts will exacerbate the issue.

The Education Infrastructure Grant's value will shrink by 3% annually until 2026/27, adjusted for inflation. Meanwhile, 1,770 schools languish with hazardous pit toilets, waiting over a decade for upgrades. The government's 'South Africa, the Construction Site' rhetoric rings hollow for these communities.

ECD Spending

90% of a child's brain development occurs before they enter formal schooling. Despite the President consistently pointing to the importance of the early years in his State of the Nation Addresses, funding for pre-school ECD services and early nutrition interventions still amounts to only 0.2% of GDP. Earlier this year, the Department of Basic Education published its 2030 Strategy for Early Learning Programmes (ELPs), providing a clear roadmap to achieve the long-promoted goal of universal access to ELPs. This is urgently needed given that less than half of ELPs are currently registered with the state, access and quality is determined almost solely on parents ability to pay fees, and only one in seven qualifying children are benefiting from the ECD subsidy, the state's main funding instrument for ELPs, which has been pegged at the low value of R17 per child per day since 2019.

While conditional grant funding for the ECD subsidy is set to increase from R1.41 billion to R1.76 billion in 2025/26, this increase is insufficient to close the massive quality and access gaps that pervade the sector, nor to make up the purchasing power of the subsidy that has been lost since 2019. Instead, additional funding of around R9 billion is required over the 2025 MTEF to get the state back on track in meeting its ECD goals.

A new vision is needed from the GNU which recognises the contribution of the care economy to inclusive economic growth, by equalising access to quality services for all young children, and promoting women's economic participation. Indeed, research shows that implementing the DBE's strategy would close the school-readiness gap for children from poorer households and reduce childcare burdens for two million women, promoting their economic participation. Furthermore, increased investment in ECD would support the creation of 70 000 small enterprises, 300 000 new jobs and improve the skills and working conditions among the women already employed in this vital sector.

Health Spending

South Africa's healthcare system is falling short of its promise of universal healthcare. Despite a 0.8% increase in funding to R274-billion, mainly for infrastructure repairs after devastating floods, this marginal boost won't cover rising costs and growing demand.

This means the country's public healthcare system will continue to face austerity measures, which are unconstitutional and unacceptable.

The reality on the ground is dire: overcrowded and dilapidated facilities, inadequate resources, and a lack of access to quality healthcare, particularly in under-resourced provinces. This is a far cry from the government's commitment to universal healthcare. To make matters worse, South Africa's health challenges are complex, with "colliding epidemics" of HIV and tuberculosis, chronic illness and mental health, injury and violence, and maternal, neonatal, and child mortality.

To bridge the gap, government must prioritise health investments, share knowledge, resources, and best practices, and focus on populations that have been left behind, especially after the COVID-19 pandemic. It's time for South Africa to revitalise its healthcare system and deliver on its promise of universal healthcare.

Social Protection

Strikingly, there is a R21 billion difference for social grants specifically between the revised estimate for 2024/5 and the 2025/6 financial years. Although not explicitly stated, this most likely means that the Social Relief of Distress (SRD) grant will not be extended nor transformed into a Basic Income Grant. With no urgent measures in place for job creation to address unemployment, the state *must* continue to provide for the SRD grant until it has concluded the development of a *better* social assistance programme for 18 to 59 year olds than the current one working towards universal basic income. The reduction in social grant payments would remove a critical form of income support for millions of South Africans who live below the Extreme or Food Poverty Line and lead to greater levels of hunger and starvation. The idea being floated to transform the SRD grant to a more limiting and restricting jobseekers grant is unacceptable in the current South African context does not make sense when there are no jobs available and *prima facie* would fail the standard of reasonableness that policies have to pass. Supply-side interventions alone will not resolve the crisis of mass unemployment.

We are gravely concerned about “harnessing digital infrastructure to roll out critical systems in the provision of service delivery in line with the digitising and simplifying the application and disbursement process for social grants”. Government fails to consider the lived realities of the majority that live in South Africa given the urban and rural divide and the disparity between rich and poor. Those who need grants the most do not have access to interconnectivity and digital tools and are not necessarily digitally literate with limited language options, whereby digitisation becomes exclusionary by default. It is imperative that the government invest in infrastructure before rolling out any systems. The SRD Grant illustrates how an exclusive online application system with verification measures implemented provides a barrier to many who are eligible for the grant.

Youth Unemployment

The Presidential Employment Stimulus (PES) was extended in the February budget; following the budget, the Unemployment Insurance Fund was identified to fund the Basic Education Employment Initiative, which is the largest programme part of the PES, with 8 in 10 beneficiaries being young people. However, the funds have not been released yet, and Phase 5 of the programme for 2024 wasn't implemented. According to Stats SA, there are 9.8 million young South Africans who are not in education, employment or training; young people aged 15-24 years and 25-34 years continue to have the highest unemployment rates at 60,8% and 41,7% respectively. Women in the specific, report decreased levels of absorption in the labour market.

Because of the social value created through public employment programmes, securing long-term funding is an investment in the future of young South Africans. Because of the demographic dividend our country enjoys, this is an investment in the collective future of our country. Research by Harambee shows that if a young person has been employed for a year, the probability of them having a job in 1 years' time is double that of someone who has worked for only 30 days; in this sense, public employment programmes can provide young people with experience. Given the scale of the youth unemployment crisis and the role that public employment programmes play in social protection strategy, we believe the programme should be scaled up and be allocated long-term funding. Funds must be made available for monitoring and evaluation, and a strengthening of partnerships that have the potential to lead participants to a next opportunity. In line with this we need to create more work opportunities and small and medium businesses are one way to do this.

Gender-responsive budgeting

The National Treasury's delay in rolling out Gender Responsive Budgeting (GRB) since the 2022/23 budget marks a troubling setback in tackling gender inequality in South

Africa. GRB is essential for advancing economic empowerment, enhancing public services, and addressing gender-based violence.

Despite prior commitments, the latest MTBPS fails to account for gender impacts, particularly in its drive to reduce the public sector wage bill. This is especially concerning as women constitute 70% of teachers and over 90% of nurses, playing key roles in inclusive growth and job creation.

South Africa was once a global pioneer in GRB, setting an example for other African nations. Now, the National Treasury must renew its commitment to GRB by implementing a fully funded plan to address gender disparities. Such action would promote economic empowerment, reinforce public services, and combat gender-based violence, in line with the Constitutional ideal of a non-sexist society.

Cuts to education, social development, and community programs disproportionately impact women, who are more likely to work in the public sector and are often dependent on income support amidst high unemployment. When state support retracts, it's women and girls who fill the gaps through unpaid care work, which intensifies under austerity. Although the National Treasury has voiced intentions for gender-sensitive fiscal policies, the MTBPS omits any mention of "gender," signalling a diminished focus on gender equity in economic policy.

Public procurement act

Conclusion

In light of South Africa's profound social and economic challenges, it is essential to adopt a fiscal framework that places human rights at its core. Prioritising wealth redistribution, gender equity, and robust public services isn't just a matter of policy—it's a constitutional and moral imperative. The persistent underfunding of essential services, the perpetuation of inequality, and the undermining of democratic processes reflect a failure to protect and uplift the majority of South Africans. Instead of pursuing austerity and catering to the wealthy few, we must shift toward a progressive and inclusive approach that recognises the interconnectedness of social justice and economic growth.

A human rights–centred framework will not only address inequality and drive sustainable growth but also honour South Africa's commitment to a just, equitable society. Now is the time for decisive action—a renewed fiscal vision that truly serves the people, upholds constitutional ideals, and positions South Africa as a leader in advocating for a fairer global economy. Only by foregrounding human rights can we ensure a future where all South Africans thrive. We urge the Committees to consider the recommendations proposed in this submission to secure a response that affirms people's Constitutional and Human Rights.

About the Budget Justice Coalition

The organisations that make up the BJC are: The Alternative Information and Development Centre (AIDC), the Children's Institute at UCT (CI), Corruption Watch (CW), Equal Education (EE), Equal Education Law Centre (EELC), HEALA, the Institute for Economic Justice (IEJ), Oxfam SA, Pietermaritzburg Economic Justice and Dignity Group (PMEJD), the Public Service Accountability Monitor (PSAM), the Rural Health Advocacy Project (RHAP), SECTION27, Ilifa Labantwana, Treatment Action Campaign (TAC), the Legal Resources Centre (LRC), Centre for Child Law (CCL), Youth Capital, 350.org, Open Secrets, Social Policy Institute (SPI), Public Affairs Research Institute (PARI), Amandla.mobi, Black Sash as well as friends of the coalition.

The purpose of the Budget Justice Coalition is to collaboratively build people's understanding of and participation in South Africa's planning and budgeting processes – placing power in the hands of the people to ensure that the state advances social, economic and environmental justice, to meet people's needs and wellbeing in a developmental, equitable and redistributive way in accordance with the Constitution.